

## AES SERVICES AGREEMENT

This AES Services Agreement (this "Agreement") is entered into as of the 10<sup>th</sup> day of MAY, 2004, by and between Atmos Energy Corporation, a Texas and Virginia corporation ("Atmos" or "Company"), and Atmos Energy Services, LLC, a Delaware limited liability company ("AES").

WHEREAS, AES is an affiliated company of Atmos Energy Corporation;

WHEREAS, AES has been formed for the purpose of providing administrative, management and other services; and

WHEREAS, the Company believes that it is in the interest of the Company to provide for an arrangement whereby the Company may, from time to time and at the option of the Company, agree to purchase certain administrative, management and other services from AES for Company's Illinois operations;

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. **SERVICES OFFERED.** Exhibit I hereto lists and describes all of the services that are available from AES. AES hereby offers to supply those services to the Company in conjunction with its Illinois operations.

2. **PERSONNEL.** AES will provide the Services by utilizing the services of such persons as have the necessary qualifications and expertise to provide the Services.

If necessary, AES, after consultation with the Company, may serve as administrative agent, arranging and monitoring Services provided by third parties to Company, whether such Services are billed directly to Company or through AES.

4. **COMPENSATION AND ALLOCATION.** As and to the extent required by law, AES will provide the Services at cost. The attached EXHIBIT 1 contains the methods for determining and allocating costs for AES.

5. **TERMINATION AND MODIFICATION.**

- A. **Modification of Services.** The Company may modify Services at any time during the term of this Agreement by giving AES written notice sixty (60) days in advance of any service changes
- B. **Modification of Other Terms and Conditions.** Other than the notice of Company respecting modification of Services, as provided in Section 5.A. above, no amendment, change or modification of this Agreement shall be valid, unless made in writing and signed by all parties hereto.

- C. Termination of this Agreement. The Company may terminate this Agreement with AES by providing sixty (60) days advance written notice of such termination to AES.
6. NOTICE. Where written notice is required by this Agreement, said notice shall be deemed given when mailed by United States registered or certified mail, postage prepaid, return receipt requested, addressed as follows:
- A. To the Company:
- Atmos Energy Corporation  
810 Crescent Centre Drive, Suite 600  
Franklin, TN 37067-6226  
Attn: Mr. Tom Blose  
Phone: (615) 771-8305  
Fax: (615) 771-9704
- B. To AES:
- Atmos Energy Services, LLC  
1515 Poydras St., Suite 2180  
New Orleans, Louisiana 70112  
Attn: Mr. Mark Bergeron  
(504) 522-2614  
(540) 522-6094 (Fax)
7. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without regard to any conflict of laws provisions.
8. ENTIRE AGREEMENT. This Agreement, together with its exhibits, constitutes the entire understanding and agreement of the parties with respect to its subject matter, and effective upon the execution of this Agreement by the respective parties hereof and thereto, any and all prior agreements, understandings or representations with respect to this subject matter are hereby terminated and cancelled in their entirety and of no further force or effect.
9. WAIVER. No waiver by any party hereto of a breach of any provision of this Agreement shall constitute a waiver of any preceding or succeeding breach of the same or any other provision hereof.
10. ASSIGNMENT. This Agreement shall inure to the benefit of and shall be binding upon the parties and their respective successors and assigns. No assignment of this Agreement or any party's rights, interests or obligations hereunder may be made without the other party's consent, which shall not be unreasonably withheld, delayed or conditioned.
11. SEVERABILITY. If any provision or provisions of this Agreement shall be held to be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

12. EFFECTIVE DATE. This agreement is subject to the approval of the Illinois Commerce Commission and shall not be effective until such approval has been obtained.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first above mentioned.

Attest:

Pamela Gold

\_\_\_\_\_

ATMOS ENERGY CORPORATION

By: Tom Blase

Name: Tom Blase

Title: President, Mid-States Division

Date: May 10, 2004

Attest:

\_\_\_\_\_

\_\_\_\_\_

ATMOS ENERGY SERVICES, LLC:

By: Mark S. Bergeron

Name Mark S. Bergeron

Title: Sr. Vice President

Date: 5-17-03

## EXHIBIT I

### **Cost Accumulation and Assignment, Allocation Methods, and Description of Services Offered by AES**

This document sets forth the methodologies used to accumulate the costs of Atmos requested services performed by AES and to assign or allocate such costs within Atmos.

#### **Cost of Services Performed**

The direct costs of these services will be determined based upon applicable employee's labor distribution. The full cost of providing services also includes certain indirect costs, e.g., departmental overheads, administrative and general costs, and taxes. Indirect costs are associated with the services performed in proportion to the direct costs of the services or other relevant cost allocators.

#### **Cost Assignment and Allocation**

AES' costs will be directly assigned, distributed or allocated to Atmos in the manner described below:

1. Specific costs from third parties will be directly assigned or charged to Atmos;
2. Costs will be allocated to Atmos' operating divisions based upon the applicable labor distribution of the employees of Atmos Energy Holdings that perform the agreed-upon services. Other indirect costs, including those from Atmos Energy Marketing, will be charged based upon the proportion of distributed labor to total labor;
3. Costs attributable to more than one rate division within an operating division will be allocated using methods determined on a case-by-case basis consistent with the nature of the work performed; and
4. Labor distribution studies will be reviewed annually and may be adjusted for any known and reasonably quantifiable events, or at such time as may be required due to significant changes.

#### **Description of Services**

A description of each of the services performed by AES pursuant to this Agreement for Company, which may be modified from time to time, is presented below. As discussed above, where identifiable, costs will be directly assigned or distributed to the Company. For costs accumulated in Account Codes which are for services of a general nature that cannot be directly assigned or distributed, the method or methods of allocation are also set forth. Substitution or changes may be made in the methods of allocation hereinafter specified, and will be provided to each applicable state regulatory agency and Company.

## **Gas Supply Procurement**

**Hedging Administration** - Develop and recommend hedging strategy for BU(s) and assist in the development of regulatory hedging filings. Execute filed hedge plan and provide monthly reporting illustrating volumes hedged, price and mark to market value to BU and corporate management. Provide support to BU regulatory and leadership team as it pertains to hedging reporting, performance, compliance and data request. Maintain and develop financial vendor relationships.

**Supply and pipeline capacity planning** - Develop and provide design day studies utilizing historical daily actual to support design day pipeline, as well as, storage capacity requirements.

**Procurement Plans** - Develop daily and monthly requirements by pipeline utilizing historical data. Plan annual load requirements, pipeline utilization and storage injection/withdrawal plans. Assist BU regulatory teams as needed for compliance filings with state commissions (Data request, etc.).

**Procurement / Contracting** - Develop and administer the RFP process for firm supply, transportation, storage services and agency services. Provide an evaluation of bids and recommendation of best options based on price, reliability, flexibility and supplier capabilities. Negotiate and coordinate local production tie-ins and pricing.

**Portfolio Management** - Evaluate BU(s) options of supply, transportation and storage to optimize most effective and efficient means to serve BU's firm load requirements.

**Contract Information Management** - Provide for a central distribution of supplier, transport, storage and all other gas supply related contracts.

**Contract Negotiations and Execution** - Negotiate and evaluate contracts for accuracy before execution. Route to appropriate BU VP Rates for execution by the BU President. Monitor all supply contract expiration and notice dates. Corporate Contracts Administration to distribute executed contract copies to key personnel.

**Supplier Relations** - Maintain good working relationships with suppliers and service providers in conjunction with BU Presidents. Monitor any changes in supplier organizations that may affect service reliability and accuracy.

**Manage Third-party Agency Contracts** - Monitor and review all natural gas supply, transportation and storage agency activities provided by a third-party. Act as liaison between gas control and all service agents.

## **System Load Management**

**Short term plan forecast** - Based on actual daily historical load and weather data; provide daily and monthly requirements by city-gate. Communicate where applicable to gas control daily the supply dispatch plan.

**Dispatch & Balancing** - Nominate monthly, daily load requirements to all upstream pipelines, suppliers and storage facilities of the BU(s). Forecast and analyze daily current month load

requirements vs. nominations to maintain pipeline imbalance percentages with in pipeline tolerance and maintain storage withdrawal and injection plans.

**Local Production** – Manage accounts, invoice and report local production activities related to volume, cost and un-accounted for where applicable.

**Weather Database** - Archive daily weather highs and lows by weather area in BU. Calculate and archive average temperatures and heating degree days (HDD). Develop reports current day, month and year to historical averages and peaks.

**Load Database** - Archive actual city-gate deliveries to third-party transporters and R&C usage by pipeline and weather area. This data is to be utilized for capacity planning, monthly and daily load forecasting.

**Pricing Database** - Archive pricing related indexes as published by monthly and daily industry publications including NYMEX.

**Capacity Management** - Utilize forecasted monthly and daily load to evaluate capacity utilization. Execute steps to maximize the value of idle capacity in release markets and asset optimization plans.

**Storage management** - Develop and execute injection and withdrawal plans by pipeline to minimize utilization of daily market volatility and support system integrity.

### **Regulatory Compliance**

**PGA Reporting Support** - Complete actual gas cost schedules to be used in the Regulatory team's monthly PGA filings.

**Purchase Gas Cost Estimate** - Provide corporate accounting and BU regulatory team with gas cost estimate of current month.

**L&U Reporting** - Provide BU's regulatory team and operations team with monthly total city-gate receipts data in a Lost and Unaccounted for report.

**FERC Regulatory Affairs** - Monitor all pipeline compliance and related filings. Advise and support corporate legal and BU leadership of any potential issues that may impact the enterprise and our customers.

**Commission Data Response Support** - Assist BU regulatory team related to gas supply issues.

**Testimony support** – Provide regulatory testimony as it pertains to gas procurement services provided.

### **Accounting Administration**

**Supplier Invoice reconciliation** - Reconcile supplier invoices with transportation deliveries. Further reconcile transportation and storage deliveries and activities with daily nominations. Approve for accuracy and/or make all appropriate adjustments.

**Supplier Invoice Reporting and Coding** - Provide cover sheet approvals and account coding for all supplier invoices. Gas cost accounting - Develop and provide supporting schedules and reports to BU and gas supply operation summarizing previous month actual purchase activity. Develop and provide supporting schedules and reports to BU and gas supply operation summarizing current month estimates of purchase activity. Maintain and reconcile invoice log.

**Local Production** – Manage accounts, invoice and report local production activities related to volume, cost and un-accounted for where applicable.

**Gas supply record retention** - Maintain three years of purchase backup per BU for data request, prudence review and management studies. Facilitate the archiving of historical data past three years in central records.

**Gas supply procedures manual** - Maintain gas supply procedures manual.